

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA



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Order Instituting Rulemaking on the Commission's Own Motion to Conduct a Comprehensive Examination of Investor Owned Electric Utilities' Residential Rate Structures, the Transition to Time Varying and Dynamic Rates, and Other Statutory Obligations.

Rulemaking 12-06-013
(Filed June 21, 2012)

**RESPONSE OF THE OFFICE OF RATEPAYER ADVOCATES
TO JOINT PETITION FOR MODIFICATION OF DECISION 15-07-001
BY SAN DIEGO GAS & ELECTRIC COMPANY, PACIFIC GAS AND
ELECTRIC COMPANY, AND SOUTHERN CALIFORNIA EDISON COMPANY**

I. INTRODUCTION AND SUMMARY OF RECOMMENDATIONS

Pursuant to Rule 16.4 of the California Public Utilities Commission's ("Commission") Rules of Practice and Procedure and the Assigned Administrative Law Judge's ("ALJ") January 9, 2016 Ruling, the Office of Ratepayer Advocates ("ORA") files this Response to Pacific Gas and Electric Company ("PG&E"), San Diego Gas & Electric Company ("SDG&E"), and Southern California Edison Company ("SCE") (collectively, "Joint Utilities" or investor-owned utilities "IOUs") Petition for Modification ("Petition" or "PFM") of Decision (D.) 15-07-001 ("Decision") in this proceeding. On December 7, 2016 the Joint Utilities filed the Petition. The Petition first asserts that the Decision's restriction on increases to the IOUs' Tier 1 rates (the "Tier 1 cap") applies only to annual glidepath changes involving tier consolidation.¹ The Joint Utilities state that if the Commission agrees with this interpretation, the Petition will not be needed. On the other hand, if the Commission disagrees, the Joint Utilities recommend that the Commission modify the Decision to authorize the IOUs to file Tier 3

¹ PFM, pp. 1-3, 7-10.

advice letters to the extent the Tier 1 cap makes it impossible for the IOUs to comply with the adopted glidepath.² The Tier 3 advice letter would be required to (a) show why it is reasonable and appropriate to exceed the Tier 1 cap to accomplish by 2019 the adopted tiered rate structure and (b) demonstrate that the bill impacts of the proposed rate changes on residential electric customers are reasonable and not excessive or volatile.³ Or, in the alternative, the Commission should modify the Decision to directly revise the Tier 1 cap formula to increase the cap to no more than the 12-month percentage change in the residential average rate (“RAR”) plus 8%. Under this second alternative proposal, the IOUs note that they would continue to seek approval of rate changes via Tier 2 or Tier 3 advice letters. In addition, under both alternatives, SDG&E requests that the Commission allow it to delay implementation of the Super-User Electric Surcharge (“SUE”) until the issues raised by the PFM are resolved.⁴

The Decision’s Tier 1 cap mechanism as currently constructed is effective to prevent adverse bill impacts to low usage energy customers and should not be revised as requested in the PFM. The Commission’s residential rate reform decision emphasizes the importance of a gradual transition to prevent rate shocks and setting a Tier 1 rate cap mechanism to ensure an affordable quantity of energy, which is normally referred to as Tier 1 or baseline usage, to all California Residents. The ALJ in her March 14, 2016 Ruling reaffirms the same policy goals.⁵ These policy goals are critical as electricity service is essential to daily living and should be maintained. Even with the Tier 1 rate cap, Tier 1 usage customers have seen substantial rate increases since residential rate

² Id., pp. 1-3, p. 13.

³ Id., pp. 1-3.

⁴ Id., pp. 1-3.

⁵ “The purpose of this proceeding is to reform residential rates to promote a variety of state policies including ensuring that an affordable quantity of energy is available to all residential customers. Rate design must also consider cost causation. D.15-07-001 found that the first step in rate reform should be the gradual shift from a steeply tiered rate system to a flatter tiered structure. This change would then be followed by a shift to TOU rates as the default residential rate structure. D.15-07-001 stressed the importance of avoiding rate shock when making changes to the residential rate structure, and the Commission instructed the utilities to transition rates gradually....” ALJ McKinney March 14, 2016 Ruling.

reform took place, which is shown in Section II. Without this protection, the increases could be even more severe and jeopardize affordable energy rates.

The Commission should reject the utilities' interpretation that the Tier 1 cap applies only to annual glidepath changes involving tier consolidation. Tier-flattening without the existing protections may trigger significant rate increases that may jeopardize energy affordability and the policy objective of moderating bill impacts.

ORA does not object to the Petition's proposal to have an option to file Tier 3 advice letters to deviate from the Tier 1 cap mechanism under extraordinary circumstances. As suggested by the Joint Utilities, the advice letter should (a) show why it is reasonable and appropriate to exceed the Tier 1 cap, and (b) demonstrate that the bill impacts of the proposed rate changes on residential electric customers are reasonable and not excessive or volatile. ORA suggests additional information be provided as described below. Further, tier flattening should take into account the potential for steep rate increases followed by decreases, and vice versa, which may occur in rates depending on whether or not the Commission adopts a fixed charge for residential rates. In fact, there is a benefit for the Tier 1 and 2 ratio to reach 1 to 1.25 beyond 2019 after default time of use ("TOU") rates are implemented. Although ORA maintains that a fixed customer charge should not be implemented because it is contrary to State policy goals, the Commission has indicated a possibility of adopting a fixed customer charge after default TOU rates are implemented in 2019. Should the Commission add a fixed customer charge to the rate structure, the simple tier ratio must be increased to 1.4 to 1.5 in order to maintain a 25% composite tier differential.

II. THE TIER 1 RATE CAP APPLIES TO ALL TIER 1 RATE INCREASES, AND MITIGATES UNREASONABLE RATE HIKES FOR BASIC ELECTRIC USAGE

The IOUs argue that "the tier 1 rate cap should only apply to tier consolidations, not to other annual glidepath changes."⁶ ORA disagrees. A cap that only applies during

⁶ PFM, p. 7.

tier consolidation; i.e., the transition from four tiers to three tiers and three to two tiers would provide no protection to customers from unreasonable rate increases unrelated to tier consolidation. In adopting the residential rate reform implementation, the Commission recognized the importance of a smooth transition for tier flattening and consolidation to minimize bill shock to lower tier customers:

The reduction in tier differential and the number of tiers will have to be carefully coordinated to minimize undue burdens on lower tier customers.⁷

D.15-07-001 also highlights the statutory requirement of keeping rates affordable for basic electric usage:- “Section 382(b), as amended by AB 327, states that ‘electricity is a basic necessity’ and that ‘all residents of the state should be able to afford essential electricity.’”⁸ In addition, when providing glidepath tier ratio guidance to the utilities, the Commission also acknowledged that its assessments of the IOUs’ rates did not include revenue requirement increases. Therefore, lower tier customers could be further impacted by a larger revenue increase:

A large revenue requirement increase allocated to the residential class at the same time as tiers are being narrowed could also result in an increase that is not reasonable for lower tier customers.⁹

The Commission’s adoption of a Tier 1 rate cap mechanism provides some measure of insurance that essential baseline and lower tier customers would not be unreasonably burdened during the rate reform process and mitigates revenue and/or actual rate change uncertainties. Further, bill impacts can be caused by tier consolidation and tier gap narrowing. The Joint Utilities’ argument does not take into account the need for rate protection, regardless of cause. Rather, the IOUs’ unreasonable interpretation is that the protection is only necessary in two instances - the transition to three tiers (which has already occurred for all three IOUs) and the transition to two tiers. Customers are not

⁷ D.15-07-001, mimeo, p. 115.

⁸ Section 382(b), as amended by AB327, states that ‘electricity is a basic necessity’ and that ‘all residents of the state should be able to afford essential electricity.’ D.15-07-001, mimeo, p. 27.

⁹ D.15-07-001, p. 115.

concerned about whether the rate increase is caused by tier consolidation or other factors; rather, they are affected by large bill impacts. A Tier 1 cap mechanism should be in place in both circumstances to provide true protection. Therefore, the IOUs' argument that the Tier 1 cap only applies when it involves tier consolidation should be rejected.

A. Tier 1 Rate Increases Have Been Much Higher than Normal Since Rate Reform Began in 2014

The Commission, through established tier ratio guidelines, has consistently noted the importance of preventing unreasonable rate impact to lower tiers. Even with the Tier 1 cap in place, Tier 1 rate has seen a lot more than normal increases. This is in part caused by higher than expected revenue increases in some instances and lower than projected sales in some others.¹⁰

PG&E Residential Rates										
		May-14	Jan-15	Jan-16	Dec-16	March 2017 (PG&E Projection)	2014 May- 2015 Jan Diff (%)	2014 May - 2016 Jan Diff (%)	2014 May- 2016 Dec Diff (%)	2014 Jan - 2017 Diff (%)
Baseline Energy		0.1363	0.1617	0.1815	0.1835	0.1828	18.66%	33.20%	34.68%	34.12%
101-130% Baseline		0.1549	0.1849	0.2155	0.2428	0.2418	19.37%	39.09%	56.71%	56.06%
131-200% Baseline		0.3196	0.2732	0.2739	0.2428	0.2418	-14.50%	-14.29%	-24.03%	-24.35%
Above 200% Baseline		0.3596	0.3332	0.3488	0.4031	0.2418	-7.32%	-3.00%	12.10%	-32.76%
Above 400% of Baseline		0.3596	0.3332	0.3488		0.4014				

SCE Residential Rates								
		Jan-14	Jan-15	Jan-16	Jan-17	2014 Jan - 2015 Jan Diff (%)	2014 Jan - 2016 Jan Diff (%)	2014 Jan - 2017 Jan Diff (%)
Baseline Energy		0.1320	0.1485	0.1511	0.1640	12.50%	14.45%	24.24%
101-130% Baseline		0.1650	0.1928	0.2089	0.2530	16.85%	26.59%	53.33%
131-200% Baseline		0.2740	0.2566	0.2432	0.2530	-6.35%	-11.26%	-7.66%
Above 200% Baseline		0.3040	0.3116	0.3024	0.2530	2.50%	-0.53%	-16.78%
Above 400% of Baseline					0.3150			

¹⁰ For instance, PG&E has seen annual sales reduction by more than 8% for the last two years. See Advice Letters 4484-E, 4696-E, and 4902-E.

SDG&E Residential Rates										
		Jan-14	Jan-15	Jan-16	Dec-16	2017 (SDG&E Projection)	2014 Jan - 2015 Jan Diff (%)	2014 Jan - 2016 Jan Diff (%)	2014 Jan - 2016 Dec Diff (%)	2014 Jan - 2017 Diff (%)
Summer										
Baseline Energy		0.1495	0.1723	0.1863	0.1913	0.2177	15.23%	24.56%	27.96%	45.56%
101-130% Baseline		0.1727	0.2025	0.2120	0.1913	0.2177	17.29%	22.77%	10.82%	26.06%
131-200% Baseline		0.3579	0.4013	0.4090	0.3946	0.4280	12.12%	14.25%	10.24%	19.57%
Above 200% Baseline		0.3779	0.4213	0.4090	0.3946	0.4280	11.48%	8.21%	4.40%	13.24%
Above 400% of Baseline						0.3563				

III. IT MAY BE NECESSARY AND BENEFICIAL TO MORE GRADUALLY TRANSITION TO 1:1.25 TIER RATIO

The Commission has stated, “the glidepath should be no steeper than necessary to reach 1:1.25 in 2019. The glidepath shall continue until the later of (i) January 2019 or (ii) the year the 1:1.25 tier ratio is achieved.” Clearly, the Commission is not willing to sacrifice its affordable energy goal by sticking to a hard deadline of 2019 for tier closure. There are other good reasons why it is not critical to reach the 1.25 ratio by 2019.

A. It may be preferable to keep the Tiers 1 and 2 Ratio Higher than 1.25 in 2019 Because of Fixed Charges

In the Decision, the Commission decided that fixed charges should not be considered until after default TOU is implemented.¹¹ The Commission also found that keeping the ratio for Tiers 1 and 2 at 1.25 would preserve conservation effects,¹² an important policy objective. Moreover, the Commission left open the possibility for fixed charge consideration after default TOU is implemented.¹³ Taking these factors into consideration, it is preferable to have the ratio at 1.5 in 2019 to avoid a rate “yo-yo” effect of rates going down and then spiking up, or vice versa, in case the Commission does approve a fixed charge after default TOU is implemented. The Decision explains the effect of the fixed charge on the tier differential calculation:

¹¹ D.15-07-001, COL 17.

¹² “A two-tier rate with 25% differential will encourage overall conservation while reducing bill volatility.” D.15-07-001, p. 114.

¹³ D.15-07-001, Conclusion of Law (“COL”) 16.

The concept of including the fixed charge amount as part of the Tier 1 rate for purposes of calculating the tier differential is known as the “composite tier methodology”. Based on the Commission’s interpretation of the statute, we have consistently required the IOUs to use the composite tier methodology. Indeed, in D.89-01-055 we concluded that “revenues from any customer charge must, as a matter of law, be included in the baseline rate for purposes of Section 739 (c). There are also sound policy reasons for doing so.... Because the law requires a baseline tier, we agree with long-standing Commission legal interpretation that the calculation should be made with the composite tier. Otherwise, we allow the utilities to effectively avoid the law.”¹⁴

Thus, when a fixed charge is added to the rate structure, the tier ratio must be increased in order to produce a comparable rate impact on customers consuming at the Tier 1 level. In response to a data request from ORA, SCE illustrated how a \$10 fixed charge would impact its 2019 non-CARE rate tier differentials:

SCE’s 2019 Non-CARE Rate	No CC	With CC	Tier 1/ Tier 2 Ratio (No CC)	Tier 1/ Tier 2 Ratio (With CC)
Tier 1	17.2	14.4	1.28	1.53
Tier 2	22.0	22.0		
SUE Charge	38.5	38.5		
Customer Charge (“CC”)	0.94	10.00		

As shown above, in order to implement a fixed charge Tier 1 rates are reduced. The implementation of a customer charge essentially shifts revenues away from the Tier 1 rate and into the customer charge. Therefore, it would be preferable to keep the Tiers 1 and 2 ratio at approximately 1.5/1 level when default TOU is implemented. This would relieve the pressure to raise the Tier 1 rate, and reduce the likelihood of exceeding the annual cap.

¹⁴ D.15-07-001, pp. 97-99.

B. SDG&E's SUE Rate Issue is Solvable

SDG&E states continuing to apply the Tier 1 cap while holding to the SUE rate glidepath will result in a Tier 1 to SUE rate ratio of 1:637, with a SUE rate that is lower than the Tier 2 rate and a Tier 1 to Tier 2 ratio that exceeds of 1:1.9.¹⁵ However, the glidepath rate ratio should be used as a guideline as ordered by the Decision.¹⁶ If these rate ratios are used as a guideline, SDG&E can redesign the rates such that the SUE rate will be higher than the Tier 2 rate. There are many options for the new rates. ORA offers an example as shown in the table below for illustrative purpose.¹⁷

PRELIMINARY SDG&E ILLUSTRATIVE 2017 RESIDENTIAL TIERED RATES						
	8/1/2016	Preliminary Jan-17	2017 Glidepath 8% + RAR T1 Cap	2017 Glidepath 5% + RAR T1 Cap	2017 Glidepath No Capping	ORA 2017 Glidepath 5% + RAR T1 Cap
Non-CARE						
Summer Energy						
Tier 1: 0%-130% Baseline	19.1	20.9	22.32	21.77	25.30	21.77
Tier 2: 130%-400% Baseline	39.5	43.1	41.64	42.80	35.55	41.39
SUE: >400% Baseline	39.5	43.1	36.54	35.63	41.42	45.29
Winter Energy						
Tier 1: 0%-130% Baseline	17.5	19.3	20.57	20.10	22.98	20.05
Tier 2: 130%-400% Baseline	36.2	39.9	38.37	39.53	32.28	38.12
SUE: >400% Baseline	36.2	39.9	33.68	32.91	37.61	41.71
T2/T1	2.07	2.06	1.87	1.97	1.41	1.90
SUE/T1	2.07	2.06	1.64	1.64	1.64	2.08

IV. INFORMATION REQUIRED FOR A TIER 3 ADVICE LETTER UNDER THE PFM'S ALTERNATIVE APPROACH

The Joint Utilities request the Commission modify the Decision either by permitting the Joint Utilities to file a Tier 3 advice letter or by raising the Tier 1 cap to RAR plus 8%.¹⁸ ORA opposes the latter option, which does not provide meaningful protection to Tier 1 rates.

If approved by the Commission, the Joint Utilities agree to accompany the Tier 3 advice letter with information to (a) show why it is reasonable and appropriate to exceed

¹⁵ Petition p. 11.

¹⁶ D.15.07-001 in describing the ordered glidepath, "...uses the 2015–2019 tier differentials above as a guideline." P. 293.

¹⁷ ORA reworked the logic embedded in SDG&E model but setting the super user surcharge rate (usage above 400% of baseline) to increase by 5% from current. This work around results in a SUE that's higher than T2.

¹⁸ Petition, p. 3.

the Tier 1 cap, and (b) demonstrate that the bill impacts of the proposed rate changes on residential electric customers are reasonable and not excessive or volatile.¹⁹ ORA agrees that such information would be important. In addition, ORA recommends that the Joint Utilities continue to provide rate changes over time in a consistent manner so that the Commission can see the cumulative impacts. ORA provides a template in Appendix A to facilitate the provision of this information. The Joint Utilities should provide the workpapers in Excel format (with functional formulas and links) when they file the advice letters.

Respectfully submitted,

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¹⁹ Petition, p. 3.

APPENDIX A

TABLE 1									
	Total Bundled Residential Revenue (\$)	Year to year Bundled Residential Rev Change (%)	Bundled Residential Sales (kWh)	Year to year Bundled Residential Sales change (%)	Average Bundled Residential Rate (cents/kWh)	Year to Year Bundled Residential Rate change (%)			
2015 Jan									
2016 Jan									
2017 Jan									
2018 Jan									
2019 Jan									
TABLE 2 (Bundled Residential Total Tiered Rates)									
Rates cents/kWh									
NonCARE	Jan 1 2015	Jan 1 2016	Jan 1 2017	Jan 1 2018	Jan 1 2019	2016 vs 2015	2017 vs 2015	2018 vs 2015	2019 vs 2015
Tier 1									
Tier 2									
Tier 3									
Tier 4									
Tier 5									
CARE									
Tier 1									
Tier 2									
Tier 3									
Tier 4									
Tier 5									
CARE									
Discount									
TABLE 3									
	Total Bundled Residential Generation Revenue (\$)	Year to year Bundled Res Gen Rev Change (%)	Bundled Residential Gen Sales (kWh)	Year to year Bundled Residential Sales change (%)	Average Residential Gen Rate (cents/kWh)	Year to Year Gen Rate change (%)			
2015 Jan									
2016 Jan									
2017 Jan									
2018 Jan									
2019 Jan									
TABLE 4									
	Total Bundled Residential Delivery Revenue (\$)	Year to year Delivery Rev Change (%)	Bundled Residential Delivery Sales (kWh)	Year to year Sales change (%)	Average Bundled Residential Delivery Rate (cents/kWh)	Year to Year Bundled Residential Delivery Rate change (%)			
2015 Jan									
2016 Jan									
2017 Jan									
2018 Jan									
2019 Jan									
TABLE 5									
	Residential DA/CCA Delivery Revenue (\$)	Year to year Residential DA/CCA Delivery Rev Change (%)	Residential DA/CCA Delivery Sales (kWh)	Year to year Residential DA/CCA Sales change (%)	Average Residential DA/CCA Delivery Rate (cents/kWh)	Year to Year Residential DA/CCA Delivery Rate change (%)			
2015 Jan									
2016 Jan									
2017 Jan									
2018 Jan									
2019 Jan									
TABLE 6									
	Total System Residential Delivery Revenue (\$)	Year to year System Residential Rev Change (%)	System Residential Delivery Sales (kWh)	Year to year System Residential Sales change (%)	Average System Residential Delivery Rate (cents/kWh)	Year to Year System Residential Delivery Rate Change (%)			
2015 Jan									
2016 Jan									
2017 Jan									
2018 Jan									
2019 Jan									
TABLE 7 (Residential Delivery Tiered Rates)									
Rates cents/kWh									
NonCARE	Jan 1 2015	Jan 1 2016	Jan 1 2017	Jan 1 2018	Jan 1 2019	2016 vs 2015	2017 vs 2015	2018 vs 2015	2019 vs 2015
Tier 1									
Tier 2									
Tier 3									
Tier 4									
Tier 5									
CARE									
Tier 1									
Tier 2									
Tier 3									
Tier 4									
Tier 5									
CARE									
Discount									